

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE EFFECTS OF THE FEDERAL TAX)	
REFORM ACT OF 1986 ON THE RATES OF)	CASE NO. 9782
THE UNION LIGHT, HEAT AND POWER)	
COMPANY - ELECTRIC)	

O R D E R

On June 11, 1987, the Commission issued its Final Order in this proceeding wherein it directed the Union Light, Heat and Power Company ("ULH&P") to reduce its rates by \$1,279,527 annually to reflect the savings resulting from the Tax Reform Act of 1986 ("Tax Reform Act"). On July 1, 1987, ULH&P filed its Application for Rehearing wherein it requested that the Commission reconsider its decision to exclude a proposed interest imputation adjustment in calculating the required decrease, stating that the adjustment was warranted in order to achieve consistency. The Commission has made such an adjustment in previous ULH&P rate filings.

The interest imputation adjustment imputes an interest expense based upon the capital structure of ULH&P's parent company, Cincinnati Gas and Electric ("CG&E"). The Commission agrees that to achieve appropriate consistency, an imputation adjustment should be made within this Tax Reform Act proceeding. Therefore, based upon the information provided in its filing of July 31, 1987, the ordered reduction in rates of \$1,279,527 should be decreased by \$130,858 to \$1,148,669, calculated as follows:

Base Change

Imputed Interest ¹	\$ 694,735	
Tax Rate Change (49.9152% - 38.785%)	X .1113	
Change in Income Tax	\$ 77,324	
Revenue Multiplier	X 1.633587	
Revenue Effect		\$126,315

Rate of Return Factor

Rate Base Adjustments	\$ 662,093 ²	
Rate of Return (Percent)	10.61 ³	
Additional Return Requested	\$ 70,248	
Revenue Multiplier	X 1.633587	
Revenue Effect	114,756	
Return Offset - Order	110,213	4,543
ADDITIONAL REVENUE GRANTED		<u>\$130,858</u>

Motion to Temporarily Waive Tariff Filing

On August 10, 1987, ULH&P filed a motion requesting that it not be required to now file new tariffs to collect any additional revenues granted on rehearing but that the tariffs be deferred until the Federal Energy Regulatory Commission ("FERC") rules on CG&E's pending application to reduce power rates for sales to ULH&P due to the Tax Reform Act. As grounds for its motion, ULH&P

¹ Response to the Commission's Order dated July 21, 1987, Item No. 5.

² Final Order of the Commission dated June 11, 1987, page 16.

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Imputed Interest	\$ 694,735
Effective Tax Rate	38.785%
Reduction in Tax Rate	269,453
Test Year Operating Income	6,651,816
Adjusted Test Year Operating Income	6,921,269
Rate Base	65,254,944
RATE OF RETURN	<u>10.61%</u>

states that the deferral of new tariffs will avoid duplicative efforts in implementing tariffs and reduce confusion for its customers.

ULH&P proposes to recognize simultaneously any increase in revenue requirements resulting from this rehearing and any decrease in revenue requirements resulting from FERC approval of CG&E's lower power rates. ULH&P also proposes to make a one-time refund, through its fuel adjustment clause, to reflect an anticipated refund from CG&E due to FERC approval of new rates retroactive to July 1, 1987.

The Commission finds that ULH&P's request to defer filing new tariffs to collect the \$130,858 additional revenues granted on rehearing is reasonable and will not impair its financial integrity. ULH&P should file new tariffs reflecting both the revenue decrease from CG&E's lower power rates and the revenue increase granted on this rehearing. The tariffs should be supported by detailed schedules and workpapers showing the two revenue changes on a separate basis.

The Commission further finds that ULH&P's proposal to pass through its fuel adjustment clause any refund received from CG&E to reflect reduced purchased power costs since July 1, 1987, is not in conformity with the Commission's Fuel Adjustment Clause Regulation, 807 KAR 5:056. Consequently, any refund should be passed through to retail customers by some other methodology.

IT IS THEREFORE ORDERED that:

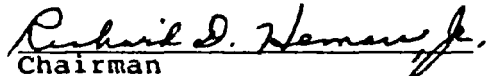
1. The reduction in rates of \$1,279,527 Ordered in the Commission's Order of June 11, 1987, be and hereby is decreased by \$130,858 to \$1,148,669.

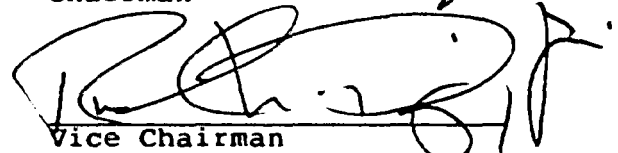
2. All aspects of the Commission's Order of June 11, 1987, not specifically addressed herein shall remain in force.

3. The Motion to temporarily waive the filing of tariffs to reflect the additional revenue granted by this Order be and it hereby is granted. Tariffs shall be filed no later than 10 days after the FERC approves CG&E's rates reflecting the Tax Reform Act.

Done at Frankfort, Kentucky, this 24th day of August, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director